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Is Islamic finance important to the Australian economy?

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Is Islamic finance important to the Australian economy?

Abstract

On the 31st July 2015, and according to figures published by the World Federation of Exchanges, the size of the Australian domestic equity market capitalization (companies admitted to listing only) was US\$1.23 trillion, which is 1.96% of the global domestic equity market capitalization of US\$62.8 trillion. On the other hand, the global Islamic finance industry assets in 28 different jurisdictions were estimated to be worth US\$1.85 trillion or 2.95% of the global domestic market capitalization.

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Is Islamic finance important to the Australian economy?

In the second and final installment of a special series, DR GEORGE MICKHAIL wonders if Islamic finance can make a major impact in Australia.



AUSTRALIA

By Dr George Mickhail

On the 31st July 2015, and according to figures published by the World Federation of Exchanges, the size of the Australian domestic equity market capitalization (companies admitted to listing only) was US\$1.23 trillion, which is 1.96% of the global domestic equity market capitalization of US\$62.8 trillion. On the other hand, the global Islamic finance industry assets in 28 different jurisdictions were estimated to be worth US\$1.85 trillion or 2.95% of the global domestic market capitalization.

Given that the Australian equity market is equivalent to 66.3% of the global Islamic finance industry assets, then understandably the industry may be perceived as way too small at this point in time in the industry's evolution to compete and attract investors in a robust Australian market – even if the regulatory environment was favorable for them to do so.

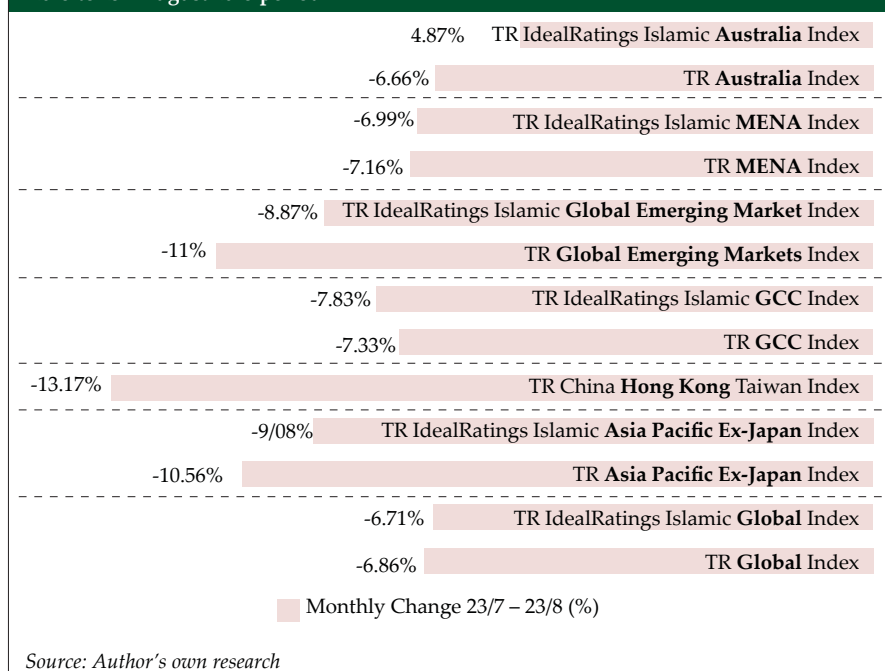
On the other hand, if there were future regulatory changes in Australia - once matters concerning double taxation and legal risks for investors in Sukuk, particularly in cross-border default cases are sorted out, then that would clear the path for the Islamic finance industry to evolve. Indeed, this may attract investors, but the current levels of participation in the global Islamic finance industry offer cautious optimism.

Is Australia looking for Islamic finance investors?

In the absence of any regulation to support or attract Islamic finance investors to Australia, the question that perhaps should be asked as 'a priori' is: Is Australia looking for Islamic finance investors in the first place?

It seems that the Australian federal government's inaction on Islamic finance is mirroring general social sentiment in the community about Islam in general, which cannot be entirely explained in

Chart 1: Comparative average change in Islamic and non-Islamic indices over the 23rd July 2015 to 23rd August 2015 period



purely economic terms.

A case in point is the effect of the Chinese market turbulence and the devaluation of the yuan on the performance of the Islamic indices over the past month (23rd July 2015 to 23rd August 2015) by comparison to their equivalent global and regional indices. In comparing the Thomson Reuters Global Index, the Asia Pacific ex Japan Index, the GCC Index, the Global Emerging Markets Index, the MENA Index and the Australia Index with their Islamic equivalents, five out of six Islamic indices performed better than their non-Islamic counterparts, as can be seen in Chart 1.

The average change in the global non-Islamic indices was -8.26% by comparison to -7.39% in the global Islamic Index. The magnitude of the losses of non-Islamic indices were estimated at US\$4.3 trillion, which were 35 times the estimated US\$120 billion in losses of the Islamic indices. The global Islamic finance index losses of US\$120 billion were lower than the Australia

Index losses of US\$130 billion given their comparative size.

In the light of such resilient performance by the global Islamic finance industry, it is obvious that the economic argument is not the real issue with the Australian regulatory inaction on Islamic finance. It is perhaps time to examine how the government inaction is mirroring general social sentiment in the community about Islam in general.

The government, the general public and Islam in Australia

The inaction by the coalition government is no doubt a reaction to public opinion poll ratings that gauge the populace's 'consumption' of their policies. As a matter of fact, all sides of politics are held 'hostage' to those opinion polls that gauge the general social sentiment, regardless of whether it was shared by the majority or not.

It was distasteful to see the anti-Islam and anti-Shariah rallies all around

Continued

Australia that coincided with Eid Al Fitr marking the end of the holy month of Ramadan. Those rallies were not shy of their explicit hostility to Islam under the guise of rejecting Islamist violence, which is supposedly being financed by Shariah compliant Halal products. It is rather difficult for Australian Shariah compliant and/or Islamic finance businesses to expand against such a community backlash.

However, it was quite telling when a federal coalition member of parliament George Christensen, from the Liberal National Party (LNP) who represents Dawson in North Queensland, addressed Reclaim Australia supporters in Mackay. The LNP is one of the government's coalition partners, which holds 25% of the seats in parliament. The prime minister was supportive of the MP's stance. If the prime minister wanted a 'united' front on Islam like on other issues (same-sex marriage, the House speaker expenses claims fiasco, etc), then why didn't he ask his coalition colleagues to 'tow' the party line? Why didn't he come to speak out against Reclaim Australia's anti-Muslim message?

The dominance of the economy in our daily life may help us understand how people learn to consume the new. In the past, economic inequality furnished the economic energy for politics. Strains on the economic system during the age of social capitalism produced resentment. This cluster of emotions principally described the belief that ordinary people who have played by the rules have not been dealt with fairly.

This intense social emotion tended to stray from its economic origins to produce resentment of old orders of patronage and privilege or minorities, such as: Muslim immigrants – who seem to 'steal' the social prizes to which they had no right. Under the sway of resentment, religion and patriotism were weapons of revenge.

In times of austerity, the populace experiences the loss of a number of social prizes. The working majority suffers material stress due to stagnant wages and increased prices, while the minority that is not in the workforce suffers the loss of their social entitlements.

In a global environment that is hijacked

by sensational violence, bombings and beheadings, it is not hard to imagine the general fear of Islam, which plays rather nicely into the hands of a conservative coalition government seeking to divert attention from its harsh austerity measures on the defenceless in society, such as disabled pensioners, the unemployed, single mothers and so on.

They are doing so by shifting focus on the 'foreign' groups that are not entitled to the social prizes already taken away from the ones at home, so as to silence any opposition to the inhumane treatment of illegal immigrants arriving recently in large numbers on foreign shores due to armed conflicts in their countries of origin (mostly of the Muslim faith).

On the 17th August 2015, The Age newspaper invited an asylum seeker who is in Indonesia to a Q&A session on Facebook, and the comments that followed highlighted the hostile state of the sentiment of Muslim asylum seekers in Australia.

However, resentment is too narrow a way to relate economics and politics, because material insecurity prompts more than ways to demonize those who herald unsettling change. So, instead of thinking of citizens as an angry voter, then, we might consider the citizen as a consumer of politics faced with pressures to buy.

The consumer-citizen in the new economy

Any government needs a narrative to frame the spectacle of whichever crisis that suits its political agenda at the time. For example, the threat of a debt crisis, a national budget crisis or Islamist terrorism is necessary to reactivate the principles of economics. For, imagination is strongest in anticipation, and the new economy strengthens this kind of 'self-consuming passion' both in shopping malls and in politics.

Is it any surprise the ecological turn in recent years and the ensuing studies of environmental economics and environmental accounting, where there is a danger of absolute scarcity and an ethic of energy conservation, have given capitalism a renewed legitimacy? Production is no longer the protagonist



in this crisis, but rather reproduction, which makes it impossible to know how much truth and how much simulacrum (a representation or imitation of a person or thing) may be in this crisis.

Ecology is too slow to produce and reproduce, to energize the imagination with more anticipation – which may explain why resources like oil and minerals offer the perfect candidates for 'sudden' crises, or spectacles that are often associated with the threat of a conflict in the Middle East or elsewhere. The shortage-in-oil illusion, for example, makes us more aware, and accepting, of the amount of production and reproduction – in terms of its future contracts and higher prices. (2)

All views expressed are the opinions of the author.

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